

Problems and Prospects of Indian Small Scale Industries

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ABSTRACT

Small Scale Industries (SSI) exists in every country. In a developing country like India the small scale sector occupies a special place in the industrial structure. Therefore Government of India has given this sector an important place in the framework of Indian economic planning for ideological as well as economic reasons. As a result, small sector has achieved an impressive growth in the number of units and production over the last six decades after independence. In spite of having huge potentialities, the Indian small scale industries could not progress satisfactorily as these industries are suffering from various weaknesses. Thus, in this research paper an effort has been made to identify the problems relating to the Indian small scale industries and to know the prospects of Indian small scale industries.

Keywords: Indian Small Scale Industries, Employment Generation and growth, Lack of machinery and equipment.

INTRODUCTION

Small Scale Industries (SSI) exists in every country. In a developing country like India the small scale sector occupies a special place in the industrial structure. In our country manpower is abundant but capital is relatively scarce. Small scale industries tend to be labour intensive. Therefore, Small Scale Industries (SSI) exists in every country. In a developing

country like India the small scale sector occupies a special place in the industrial structure. In our country manpower is abundant but capital is relatively scarce. Small scale industries tend to be labour intensive. Therefore, these industries are better suited to the country's resource potential. In view of the vast potential of small scale sector, the Government of India has given this sector an important place in

the framework of Indian economic planning for ideological as well as economic reasons. As a result, small sector has achieved an impressive growth in the number of units and production over the last six decades after independence. In spite of having huge potentialities, the Indian small scale industries could not progress satisfactorily as these industries are suffering from various weaknesses. Thus, in this research paper an effort has been made to examine the present position and performance of SSI sector in India and its role in the economy. It also covers weakness of the SSI sector and to suggest measures to remove the weakness.

CONCEPT & DEFINITION OF SSI

Industrial units are generally classified between small-scale, medium scale and large scale units; considering their size, capital resources and the number of labourers engaged upon. The concept of small business has been defined by different countries in different ways. Moreover the definition has been changing over time. Size of the Business and Qualitative Criteria are the two main criteria used to define small business. The criteria adopted in different countries are given in Table-1.

Table-1

Bases of Defining Small Business in Various Countries

S.N.	Criterion	Countries
1	Investment in plant and machinery	India, Pakistan, Indonesia
2	Employment	USA and UK
3	Investment and Employment	Japan, Korea and Phillipines
4	Production / Sales turnover	China, UK (commercial)
5	Employment and Sales turnover	Korea (commerce)
6	Investment and Sales turnover	Maleysia

Source: Gupta C.B. & Khanka S.S., 'Entrepreneurship and Small Business Management (2010)', Sultan Chand & Sons, New Delhi, Page 2.4

The definition of small scale industries (SSI) in India has changed over the years. According to the Fiscal Commission, 1950 "A small scale industry is one which is operated mainly with hired labour usually 10 to 50 hands." Accordingly, the Industries (Development and Regulation) Act, 1951 exempted small scale units employing less than 50 workers with power and less than 100 workers without power, from the system of registration. These

exempted industries were termed as small scale industries. 'Fixed capital investment in a unit' has also been adopted as the other criterion to make distinction between small scale industries and the large scale industries. This limit is being continuously raised upwards by the government. A retrospective view of these changes in the investment limit of Small Scale Industries (SSI) and Ancillary Units (AU) is given in Table-2.

Table-2
Changes in the investment limit of SSI and Ancillary Units (AU)

Year	SSI (Investment Limit in Rs.)	AU (Investment Limit in Rs.)
1955	05 Lakhs	N.A.
1966	7.5 Lakhs	10 Lakhs
1975	10 Lakhs	15 Lakhs
1980	20 Lakhs	25 Lakhs
1985	35 Lakhs	45 Lakhs
1991	60 Lakhs	75 Lakhs
1997	03 Crores	03 Crores
1999-200	01 Crores	01 Crores
2007-08	1.5 Crores	1.5 Crores

It is clear from Table-2 that “small” has become quite “big” over a period of time. In 1967 government started the process of reservation of items of production exclusively by the small scale sector. The number of items reserved for the small scale sector reached 873 the peak in 1984. Thereafter there has been a continuous relaxation of the reservation policy overtime and the number of items reserved was 239 on January 22, 2007. The process of de-reservation of items from small scale sector continued in recent years. On February 5, 2008, the Government has excluded an additional 79 items from a list of 114 items which can be exclusively manufactured in the small scale sector. With this de-reservation, only 35 items can now be manufactured in the SSI sector. These includes food and allied items, wood, wood products, paper, paper products, plastic product, organic chemicals, drug, drug intermediates, other chemicals, chemical products, glass, ceramics, mechanical engineering, electrical machines, appliances and apparatus. The Government has been

de-reserving items in a gradual and calibrated manner to increase competitiveness of the industry, facilitate adequate flow of credit and upgrade technology.

PERFORMANCE OF SMALL SCALE INDUSTRIES

In a country like India, the position of SSI is quite worth mentioning. The number of small scale units has been increasing in a comprehensive manner in recent years, more particularly after the introduction of economic reforms. Table-3 shows the performance of Micro and SSI units in India.

The performance of the small scale industry sector based on final results of the Third All India Census of SSIs, 2004 is given in Table-3. It is observed from the table that total number of SSI units has increased from 79.6 lakhs in 1994-95 to 133.68 lakhs in 2007-08, indicating an annual average growth rate of 5.22 percent, but their production (at 1993-94 prices) increased from Rs. 1,09,116 crores in 1994-95 to Rs.5,32,979 crores in 2007-08 i.e. an annual average growth of 29.88 percent. As a consequence of the increase in SSI units, more especially in the unregistered sector, employment increased from 191.4 lakhs in 1994-95 to 322.28 lakhs in 2007-08, recording an average growth rate of 5.26 percent per annum. So far as exports by SSI sector are concerned, they increased from Rs. 29,068 crores in 1994-95 to Rs. 1,77,600 crores in 2006-07, recording a growth rate of 42.58 percent per annum. On the whole, it can be stated that during 1994-95 to 2007-08, the SSI sector recorded an annual

average growth rate of production by 29.88 percent (at constant prices), of employment by 5.26 percent and of exports by 42.58 percent. This is a creditable achievement.

Table-3**Performance of Micro and SSI units in India**

Year	No. of Units (Lakh)			Production (Rs. Crore)		Employment in lakh	Exports (Rs. Crore)
	Regd.	Unregd.	Total	(at current prices)	(at 1993-94 prices)		
1994-95	11.61	67.99	79.60	1,22,210	1,09,116	191.40	29,068
1995-96	11.57	71.27	82.84 (4.07)	1,48,290	1,21,649 (11.48)	197.93 (3.41)	36,470 (25.46)
1996-97	11.99	74.22	86.21 (4.06)	1,68,413	1,35,380 (11.28)	205.86 (4.00)	39,248 (7.61)
1997-98	12.04	77.67	89.71 (4.05)	1,89,178	1,47,824 (9.19)	213.16 (3.54)	44,442 (13.23)
1998-99	12.00	81.36	93.36 (4.06)	2,12,901	1,59,407 (7.83)	220.55 (3.46)	48,979 (10.20)
1999-2000	12.32	84.33	97.15 (4.05)	2,34,255	1,70,709 (7.09)	229.10 (3.87)	54,200 (10.65)
2000-01	13.10	88.00	104.10 (7.15)	2,61,289	1,84,428 (8.03)	239.09 (4.36)	69,797 (28.77)
2001-02	13.75	91.46	105.21 (1.06)	2,82,270	1,95,613 (6.06)	249.09 (4.18)	71,244 (2.07)
2002-03	15.91	93.58	109.49 (4.06)	3,11,993	2,10,636 (7.67)	263.68 (5.85)	86,013 (20.7)
2003-04	16.97	96.98	113.95 (4.07)	3,57,733	2,28,730 (8.59)	275.30 (4.40)	97,644 (13.52)
2004-05	18.34	100.35	118.59 (4.07)	4,18,263	2,51,511 (9.95)	287.55 (4.44)	1,24,417 (27.41)
2005-06	19.30	104.12	123.42 (4.07)	4,76,201	2,77,668 (10.39)	299.85 (4.27)	1,50,242 (20.75)
2006-07	20.32	108.12	128.44 (4.06)	5,85,112	4,71,663 (69.86)	312.52 (4.22)	1,77,600 (18.20)
2007-08	-	-	133.68 (4.07)	6,95,126	5,32,979 (12.99)	322.28 (3.12)	N.A.

Note: Figures in brackets indicate percentage growth over previous years.

Source: Ministry of Small Scale Industries and Economic Survey, 2007-08, p. 198

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ROLE OF SMALL SCALE INDUSTRIES

Small scale industries have been playing an important role in Indian economy in terms of employment generation and growth. Research studies indicate that the SSI sector has been contributing about 40 percent of the gross value of output produced in the manufacturing sector, 6.9 percent of the net domestic product and more than 35 percent of the total volume of exports of the country. Besides the generation of employment by the small scale sector is more than five times to that of large scale sector. The second plan rightly emphasized the role of small scale and village industries on the growth of:

- (a) Employment generation
- (b) Equitable distribution
- (c) Mobilization of capital
- (d) Mobilization of entrepreneurial skill and
- (e) Regional dispersal of industries
- (f) Better industrial relations

It is due to the above mentioned factors the growth rate of small scale industrial sector has remained faster in terms of its number, employment and output.

WEAKNESS OF THE SMALL SCALE INDUSTRIES

In spite of having huge potentialities, the small scale industries in India could not progress satisfactorily as these industries are suffering from various weaknesses. The major weaknesses of the small scale industries are following.

- Inefficient human factor
- Faulty and irregular supply of raw materials
- Lack of machinery and equipment
- Absence of credit facilities
- Absence of organized marketing facility
- Competition from large scale units and imported articles
- Old and orthodox designs
- High degree of obsolescence
- Substantial under utilization of capacity varying between 47 to 58 percent
- Huge number of bogus concerns
- Unsuitable locations etc.

Due to all these weaknesses the development of small scale industries could not reach a prestigious stage. The Seventh Plan has rightly observed that “All these constraints have resulted in a skewed cost structure placing this sector at disadvantage vis-à-vis the large industries both in the domestic and export markets.”

REMEDIAL MEASURES

Small scale industries are occupying a very important place in the industrial structure of the country. Thus, suitable steps should be taken to remove all those weaknesses from which these industries suffer. The remedial measures are following:

- Conducting detailed surveys of the existing small scale industries and drawing productive programmes for them.
- Improvement in techniques and adoption of modern technology in SSI units.
- Imparting proper education and training to workers engaged in small scale units.
- Regular supply of inputs at reasonable rates.
- Adequate credit arrangement.
- Provision for cheap and regular supply of electricity.
- Effective marketing managements like sales depot and exhibitions.
- Conducting research on the techniques of production.
- Maintaining standards and quality of the output produced by SSI units.
- Temporary protection through reservation of spheres of small scale industries.
- Establishing separate suitable machinery with large powers and initiative to tackle different typical problems of small scale industries of the country.

CONCLUSION

Small scale industries have been playing an important role in Indian economy in terms of employment generation and growth. In spite of having huge

potentialities, the small scale industries in India could not progress satisfactorily as these industries are suffering from various weaknesses. If remedial measures are taken in proper time and spirit the small scale sector will be able to utilize huge development potential available in the country and the SSI sector will prove itself as one of the most dynamic and vibrant sector of the economy of the country.

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